

2002 MICHIGAN Farmland Preservation Tax Credit Claim

Issued under authority of the Income Tax Act of 1967. Filing is voluntary.

2002
MI-1040CR-5

Attach to Form MI-1040. Read all instructions as you complete this form. Please type or print. Attachment Sequence No. 03

PART 1: IDENTIFICATION

▶ 1. Filer's First Name, Middle Initial and Last Name	▶ 2. Filer's Social Security No.
If a Joint Return, Spouse's First Name, Middle Initial and Last Name	▶ 3. Spouse's Social Security No.

PART 2: COMPUTATION OF CREDIT

Complete a Schedule CR-5 before completing Part 2.

4. Total taxes for all agreements from line 3, column F, Schedule CR-5	4.	.00
5. Are all of the taxes that qualify for a homestead property tax credit included in the total on line 4? <input type="checkbox"/> Yes <input type="checkbox"/> No		
6. If no, enter the taxes on your home and farmland that qualify for a property tax credit but are not under a farmland preservation agreement	6.	.00
7. Total. Add lines 4 and 6	▶ 7.	.00
8. Household income from MI-1040CR, line 29, or CR-2, line 29	8.	.00
9. Depletion allowance claimed on your federal return	9.	.00
10. Total. Add lines 8 and 9	10.	.00
11. Total taxes on land covered by Farmland Developmental Rights Agreement from line 4	11.	.00
12. Taxes not eligible for credit. Multiply line 10 by 3.5% (.035)	12.	.00
13. Subtract line 12 from line 11	13.	.00
14. Enter your Homestead Property Tax Credit from MI-1040CR or CR-2.	14.	.00
15. Total Property Tax Credits (add lines 13 and 14)	15.	.00

IF LINE 15 IS LESS THAN LINE 7, ENTER THE AMOUNT FROM LINE 13 ON LINE 31 OF YOUR MI-1040 AND STOP HERE.

16. If line 15 is greater than line 7, enter the amount from line 7	16.	.00
17. Enter the amount from line 14	17.	.00
18. Subtract line 17 from line 16. Enter here and on line 31 of your MI-1040	▶ 18.	.00

PART 3: SIGNED DISTRIBUTION STATEMENT FOR JOINT OWNERS

Complete only if you are a joint owner with someone other than your spouse. Part 3 **must** be signed by all joint owners.

Agreement Number	Partner's or Joint Owner's Name	Partner's or Joint Owner's Social Security Number	Partner's or Joint Owner's Percentage of Income	Partner's or Joint Owner's Percentage of Ownership	Signatures are required of all partners or joint owners other than your spouse.

Mail your return to:

FARMLAND PRESERVATION UNIT
Michigan Department of Treasury
P.O. Box 30058
Lansing, Michigan 48909

For help, call 1-800-827-4000.

Deaf, hearing- or speech-impaired persons call 517-636-4999 (TTY).

Assemble your return and attachments in the following order, beginning on top:

- Yellow notice from back page of the MI-1040CR-5 booklet. (If you do not have a booklet, attach a small sheet of yellow paper and write "Farmland Preservation Tax Credit" on it.)
- *Michigan Individual Income Tax Return* (Form MI-1040).
- *Michigan MI-1040 Schedule 1*.
- *Nonresident and Part-Year Resident Schedule* (Schedule NR).
- *Farmland Preservation Tax Credit Claim* (Form MI-1040CR-5).
- *Schedule of Taxes and Allocation to Each Agreement* (Schedule CR-5).
- A completed *Homestead Property Tax Credit Claim* (Forms MI-1040CR or MI-1040CR-2), even if you are not qualified to receive a credit.
- *College Tuition and Fees Credit* (Schedule CT).
- A copy of any recorded Farmland Development Rights Agreement (FDRA) not claimed on your previous year's return.
- **A copy of your 2002 property tax statements that show the taxable value, the property taxes levied by millage rate and the corresponding agreement numbers.**
- An official allocation of your tax statement amount between property subject to an FDRA and property not covered by an FDRA.
- A copy of your receipt showing payment of your 2001 or 2002 property taxes.
- A copy of page 1 and 2 of your 2002 U.S. *1040*. (If you are not required to file a federal return, attach a schedule showing farm income and expenses used to arrive at net income.)
- Copies of federal schedules and forms which reflect adjustments to gross income (*Schedules C, D, E and F*, and U.S. *4797* and *4835*).
- Your *Application for Michigan Net Operating Loss Refund* (Form MI-1045), if you have reduced your household income by an operating loss or carryover.
- Partnerships must attach U.S. *1065* and *Schedule K-1*. S corporation shareholders must attach U.S. *1120S* and *Schedule K-1*.
- Joint owners must attach a statement signed by all owners specifying each owner's percent of income and expenses, or complete Part 3 of the MI-1040CR-5.
- *Schedule of Withholding* (Schedule W).

Attach the yellow special notice to the front of your MI-1040.

MICHIGAN 1040CR-5

2002

Michigan Farmland Preservation Tax Credit

Forms and Instructions



Farmland and Open
Space Preservation Act
P.A. 116 of 1974, as
amended

Special Notice for 2002

This book includes a special yellow notice on the back cover. Attach the notice to your return to prevent delays in processing your refund. If you use a tax preparer, please take this booklet to your preparer so the special notice can be attached to your return.

This book is only intended as a guide to help you complete your return. It does not take the place of the law.

Visit Our Web Site at
www.michigan.gov/treasury

Important Information

Treasury is committed to fair, consistent and courteous customer service.

We are pleased to offer the following services available 24 hours a day, 7 days a week.

NOTE: To get return information using the "Internet" and "Telephone" options below, you must have the primary filer's Social Security number and adjusted gross income or household income.



Internet

www.michigan.gov/iit

You can access the Department of Treasury Web site to (1) check the date Treasury is currently processing returns, (2) check if your refund has been issued, and when, for the current year and three prior years, (3) ask Treasury a question, (4) check estimated payments, (5) request copies of returns filed, and (6) order copies of current and prior year tax forms. Visit our Web site at **www.michigan.gov/iit** to access these service options. A list of Frequently Asked Questions is also available.



Telephone

1-800-827-4000

CRIS: Call the Computerized Return Information System (CRIS) to (1) check the date Treasury is currently processing returns, (2) check if your refund has been issued, and when, for the current year and three prior years, (3) check estimated payments, and (4) request copies of returns filed. See below **Forms** section below for ordering blank forms.



Forms

Internet: Forms are available on our Web site at **www.michigan.gov/treasury**

Fax: Dial 517-241-8730 from a fax phone to have current year Michigan tax forms sent to your fax machine 24 hours a day.

Phone: Call toll-free 1-800-367-6263 to have tax forms mailed to you.

Public Offices (available during regular business hours): Forms are available at all Treasury offices listed on page 15 of this book. Commonly used forms are also available at most Michigan Secretary of State offices, post offices, and libraries.

Deaf, hearing- or speech-impaired persons may call 517-636-4999 for assistance.

Important Reminders

- The *Schedule CR-5* was created to provide more space to list all your agreements and corresponding taxes. It is important that you use this form to list your agreements. Processing of your refund may be delayed if the *Schedule CR-5* is not used.
- A *Michigan Income Tax Return* (Form MI-1040) and a *Homestead Property Tax Credit Claim* (Form MI-1040CR) must be completed and filed with your *Farmland Preservation Tax Credit Claim* (Form MI-1040CR-5) even if you are not otherwise required to file these forms. File all forms and attachments at the same time.
- Deduct all special assessments, penalties, interest and other non-allowable charges from the property tax bills.
- Include your previous year's farmland preservation tax credit in federal adjusted gross income.
- Enter **the most current** agreement numbers on *Schedule CR-5* and on the property tax statements. If agreements have been renewed the agreement numbers will change.

File Early



File your return early since it will be processed in the order received. Attach all the requested information to prevent delays in processing your refund. You **may not** take advantage of electronic filing when claiming a farmland credit.

When You Have Finished

Check for these **common errors** that can delay your refund:

- Failing to complete *Schedule CR-5* according to instructions.
- Using a label with incorrect information on the MI-1040 form or writing illegibly.
- Transposing numbers in the Social Security number.
- Failing to attach all applicable federal returns and schedules (U.S. 1040, 1065, 1120S, K-1, etc.).
- Entering figures on wrong lines.
- Computation errors.
- Failing to sign your return (both spouses must sign for joint returns).
- **Failing to attach 2002 tax statements that show the taxable value and an itemized listing by millage rate of the property taxes levied.**

Before you mail your return, review it carefully and make sure it is complete. Attach the yellow notice to the front of your MI-1040 and assemble your returns and attachments in the order shown on the back of the MI-1040CR-5 form.

General Information

What is the Farmland Preservation Credit?

The Farmland Preservation Credit gives back to farmland owners a share of the property tax they pay on their farmland. Farmland owners qualify for credit by agreeing to keep the land as farmland and not develop it for another use.

Who qualifies for the Farmland Preservation Credit?

You qualify if you meet ALL of these requirements:

- You own farmland;
- You have entered into a Farmland Development Rights Agreement (FDRA) with the Michigan Department of Agriculture (MDA); **AND**
- You are eligible to file a MI-1040.

What is a Farmland Development Rights Agreement?

Through an FDRA you receive property tax relief in return for your pledge not to change the use of your lands.

Caution: The FDRA restricts development of your land. Before making any changes to property covered under this agreement or to its ownership, consult the MDA. Some changes may make your property ineligible for credit.

How to claim the credit

Complete the enclosed forms and file them with your MI-1040. Attach a copy of pages 1 and 2 of your U.S. 1040 and copies of U.S. *Schedules C, D, E, F* and U.S. 4797, 4835, 1065, 1120S and K-1s if you needed to complete them for your federal tax return. If you are not required to file a federal return, attach a schedule showing farm income and expenses used to arrive at net income.

Note: You must attach copies of the federal schedules that show the income and expense of the farming operation regardless of what kind of entity reports them (e.g., S corporation, trust or partnership). You must also include the following:

- A copy of your 2002 property tax statement(s) that shows the taxable value, the property taxes levied and the corresponding agreement numbers.
- A 2002 MI-1040CR with a completed schedule of household income **even if you are not qualified to receive the credit** (see line 8 instructions on page 6).
- A copy of the receipt showing that your 2001 or 2002 property taxes were paid. If your property taxes have not been paid or you do not attach your receipt(s), Treasury will mail you a check made jointly payable to you and the county treasurer for the county where the property is

located. (A new check payable only to you will not be issued if you later prove that the taxes have been paid.)

- If a claimant falsely specifies that the receipt showing payment of the property taxes is attached to the return and the property taxes are not paid before the return is filed, all future payments of credits to the claimant will be made payable jointly with the county treasurer of the county in which the property under agreement is located (Section 36109 (7)).

- If your property tax statement includes property that is not covered under an FDRA, you must show what portion of your total acreage and property tax is for land enrolled in the FDRA. **Your local equalization officer or your local assessor must give you this information on official letterhead, if it is not detailed on your property tax bills.**

- If you farmed under a partnership, include a copy of your U.S. 1065 and *Schedules K* and *K-1*.

- If you farmed under an S corporation, include U.S. 1120S and *Schedules K* and *K-1*.

- Joint ownerships must include a statement signed by all owners specifying each owner's percentage of income and expenses.

When to claim a new agreement

New agreements must be approved by your local government by November 1, 2002 for you to claim a 2002 credit for that agreement. The new FDRA is not final until you receive a copy from the MDA that has been recorded at the Register of Deeds. Credit for the new FDRA will not be allowed unless a copy of the recorded agreement is attached to your return. If you do not get your copy before April 15, 2003, file your return without claiming credit for the new agreement. File an MI-1040CR-5 with an *Amended Michigan Income Tax Return* (Form MI-1040X) when you receive the new FDRA.

Which form to file

You may file one of two forms depending on the type of farm ownership.

The following should file using Form MI-1040CR-5 with their income tax return:

- Individuals who own a farm independently.
- An individual in possession under a life estate with remainder to another person.
- Representatives of deceased single persons. Include property taxes and income from January 1 to the date of death.

- Partnerships.
- Joint owners.
- Limited liability companies.
- S corporation shareholders, **except** shareholders of S corporations that had an FDRA before January 1, 1989 and in 1991 elected to file under the Single Business Tax Act on Form C-8022.
- Grantor trusts (if you are treated as an owner under IRS Code, Sections 671 to 679).
- Trusts created by the death of a spouse if the trust requires 100 percent of the income from the trust to be distributed each year to the surviving spouse.

The following should file using Form C-8022:

- Estates. Include property taxes from the date of death and farm income required to be reported on your U.S. 1041.
- Corporations (other than S corporations).
- S corporations that had an FDRA before January 1, 1989 and in 1991 elected to file Form C-8022.
- Trusts, except as noted above.

What to do with a jointly payable check

Take the check, check stub, and a copy of your FDRA(s) to your county treasurer(s). He or she will ask you to endorse the check, then use the refund to pay any delinquent taxes. Any amount left will be refunded to you.

Property taxes that can be claimed for credit

The property taxes levied in 2002 on enrolled land can be claimed for the 2002 credit, regardless of when they are paid. Special assessments (those not based on state equalized or taxable value), penalties and interest cannot be claimed.

Taxes on land not eligible for either the homestead or agricultural exemption most likely are not eligible for P.A. 116 credit. The exception is rental property where the tenant spends at least 1,040 hours per year participating in the farming operation. To compute the taxes that can be claimed for credit, exclude the school operating tax, and multiply the balance by the percentage of exemption allowed by the local taxing authority.

Example:

Taxes levied	\$2,000
School operating tax	\$350
Homestead exemption	60%

\$2,000	\$1,650
- 350	x 60%
\$1,650	\$990 can be claimed for credit

If you have entered into more than one agreement with the MDA, the sum of the taxes under each agreement is used to compute your credit. The amount of credit you will receive is based on household income.

How to compute the homestead property tax credit.

You must include your total farmland preservation credit amount on your MI-1040CR or your MI-1040CR-2. Enter the amount of credit you received in 2002 on the MI-1040CR, line 18, or MI-1040CR-2, line 18. Or, include the credit in net farm income on MI-1040CR, line 16, or MI-1040CR-2, line 16. Homestead property tax credits are not included in Michigan household income. If you included this amount in your taxable farm income you may subtract it from your household income.

How will this affect my 2002 taxable farm income?

The portion of your homestead property tax credit that is for farm buildings and land is business related. To determine the portion that is business income, divide the taxable value of your buildings and land by the total taxable value of your property, then multiply by the credit (see below). Your local assessor can show you how your total taxable value was determined.

Taxable value of buildings and farmland	x	2001 Homestead property tax credit amount
Total taxable value		

= Portion of homestead property
tax credit that is business income

You must include your 2001 farmland preservation tax credit amount and the business portion of your 2001 homestead property tax credit in your 2002 federal adjusted gross income. If you own your property as an individual, but the farming activity is operated under a partnership, report the farmland credit on your personal return.

Was your 2001 tax refund (MI-1040, line 38) greater than the amount of your 2001 farmland preservation credit (MI-1040, line 31) plus the business portion of your homestead property tax credit?

If yes, you may subtract on line 16 of the *MI-1040 Schedule 1* the excess refund amount that you received in 2002 to the extent it was included in federal adjusted gross income.

Land owned by a person under a life estate

A person in possession for life under a life estate with remainder interest to another person may claim all the property taxes to compute the credit. However, the life estate holder and the person(s) holding the remainder interest may choose to divide the property taxes in the same manner as they divide revenue and expenses. A written agreement must be attached to each return.

Land owned by a partnership

Property taxes on land owned by a partnership are allocated to the partners based on the partner's percent of income or ownership. All partners must use the same basis for filing.

If the partnership files a U.S. 1065, the percent is on each partner's *Schedule K-1*. If the partnership is not required to file a U.S. 1065, the percentage of income is on the partnership agreement or on a statement signed by all the partners. If no U.S. 1065 is required, use Part 3 to show percentage of income or ownership.

Farmland owned with someone other than a spouse

Taxes on land owned jointly are allocated to each owner. If co-owners divide each item of revenue and expenses and choose to allocate the property taxes that same way, they may do so only if they attach a copy of a statement signed by each owner. The statement must show each owner's share of the revenues and expenses. This requirement can be met by completing Part 3 of the MI-1040CR-5. If a signed income distribution statement is not attached, the taxes must be allocated equally among the owners, with two exceptions:

- A husband and wife are considered one owner; and
 - An owner eligible to be claimed as a dependent by another owner cannot receive a share of the taxes and cannot claim a credit for that farmland.
-

Land owned by a limited liability company

Property taxes on land owned by a limited liability company are allocated to each member in a percentage equal to the member's share of ownership or distributive share of ordinary income as reported by the limited liability company to the IRS.

Land owned by an S corporation or trust

Beginning with credits for 1988, taxes on land owned by an S corporation are allocated to each shareholder based on the shareholder's share of the corporation's stock. This percentage is on U.S. 1120S, *Schedule K-1*. **Exception:** If the S corporation had an FDRA before 1989 but in 1991 elected to file under the Single Business Tax Act on Form C-8022, the S corporation must continue to file under the SBT. If the FDRA was not in the S corporation's name before January 1, 1989, the taxes on land covered by this agreement must be claimed on the shareholder's Michigan income tax using Form MI-1040CR-5. These taxes must be claimed by the shareholders even if the S corporation elected to file Form C-8022 for other agreements that the S corporation entered into before January 1, 1989.

For farmland owned by a grantor trust, if you are treated as the owner of that trust under IRC sections 671 - 679, you must include a copy of that portion of the trust agreement that shows that you are the owner of a grantor trust holding title to the farmland.

If the trust was created by the death of a spouse and requires 100 percent of the income to be distributed to the surviving spouse, you must attach a copy of the U.S. 1041 form and *Schedule K-1*, if required.

I purchased a farm in 2002 that was already enrolled in the farmland program.

How do I claim a credit?

Your farmland credit will be processed only if there is a farmland agreement on file with the MDA IN THE SAME NAME AS YOUR DEED. You must prorate the 2002 taxes for the period you owned the land and claim your credit based only on those taxes.

I filed for bankruptcy

If you are enrolled in the Farmland and Open Space Preservation Act program and have petitioned for bankruptcy (under U.S. Bankruptcy Code, chapters 7, 11, 12 or 13), claim your credit on Form MI-1040CR-5 and attach it to your Michigan income tax return.

You must prorate your credit for the part of the year ending when the petition in bankruptcy was filed. The trustee in bankruptcy or the landowner as Debtor in Possession may file a claim for the portion of the year following the date of petition. Bankruptcy estates are also required to file a fiduciary return (MI-1041).

To transfer an agreement

To transfer an agreement, you must show that all of the land described under the agreement has been conveyed. The Department of Agriculture will need a copy of the legal document (e.g., deed, land contract, etc.) used for conveyance and the new owner's name, address, Social Security number, and a fee of \$25.00 per transfer.

For more information on P.A. 116 contact:

Farmland and Open Space Preservation Unit
Environmental Stewardship Division
Michigan Department of Agriculture
P.O. Box 30449
Lansing, Michigan 48909

Line-by-Line Instructions: Schedule CR-5 and MI-1040CR-5

Lines not listed are explained on the form.

Schedule CR-5

Column A: Agreement number or contract number is found in the lower right corner of each agreement. The first two numbers represent the county where the property is located. The middle set of numbers is the actual contract number. The final six numbers are the year of expiration, i.e., 123102 (December 31, 2002). The contract number retains its original series throughout the term of the agreement. However, a letter may be added to indicate that the agreement was split into multiple agreements. The final six numbers change when the agreement is reduced or extended. Always use the contract number on your most recently recorded agreement, and attach a copy of each 2002 tax statement that corresponds to the agreement number listed.

Column B: For each agreement, check the "Yes" box if you attached paid tax receipts for 2001 or 2002. If paid receipts are not attached, check the "No" box. If you do not check a box, your Farmland Preservation Credit will be issued jointly to you and the treasurer for the county where the property is located.

Note: 2002 property tax statements must be attached regardless of which box is checked in column B.

Column C: Enter 'I' if you are the individual owner or co-own the land with your spouse, 'J' if you are a joint owner with someone other than your spouse, 'P' if the land is owned by a partnership, or 'S' if the land is owned by an S corporation.

Column D: If the land is owned by you and someone other than your spouse, enter your percent of income from the signed statement or your percent of ownership based on the

number of owners. If the land is owned by a partnership, enter your percent of income or ownership. All partners must use the same basis for filing. If the land is owned by an S corporation, enter your percent of stock ownership.

Column E: Individuals enter the taxes from each tax statement for the portion of land enrolled under an agreement. **Joint owners, partners, and shareholders** enter only their allocated share of taxes from each tax statement for the portion of land enrolled under an agreement.

Note: If the property tax statement includes taxes for land not covered by an FDRA, the taxes reported in column E must be reduced accordingly. The amount of taxes that cannot be claimed must be determined by the local assessor's office and submitted on his or her official letterhead. The 1 percent collection fee may be included. Do not include penalties, interest or special assessments.

Note: If the property tax statement includes taxes for land on more than one agreement, the taxes reported in column E must be separated according to land in each agreement. The local assessor will be able to determine what the breakdown is based on the legal descriptions of the land enrolled under each agreement.

Column F: After entering the tax amounts for each tax statement, add the amounts entered in column E for each agreement and enter the total on line 3, column F.

MI-1040CR-5

Line 4: Enter the amount from line 3, column F, Schedule CR-5.

Line 5: If all of the taxes which qualify for a homestead property tax credit are included in the total on line 4, check the "Yes" box. Otherwise, check the "No" box.

Line 6: If you answered "Yes" to line 5, enter "NONE." If you answered "No" to line 5, enter the taxes on your home and farmland that qualify for a homestead property tax credit but are not included in your FDRA.

Line 7: Add the total of line 4 to line 6. If you wrote "NONE" on line 6, carry the total on line 4 to line 7.

Before completing line 8, read, "How to compute the homestead property tax credit" on page 4.

Line 8: Enter your total household income from your MI-1040CR or MI-1040CR-2. If you are a part-year or nonresident, include total 2002 household income, regardless of source.

Line 9: Enter the depletion allowance claimed on your federal income tax return. If you are not entitled to a depletion allowance, enter "NONE."

Line 11: Enter amount of property tax from line 4. This line **MUST BE COMPLETED**.

Line 15: If line 15 is less than line 7, enter the amount from line 13 on line 31 of your MI-1040. If line 15 is greater than line 7, complete lines 16 through 18.

Complete columns G and H of Schedule CR-5 only if you have entered into more than one agreement.

Schedule CR-5, Column H: Multiply line 13 or 18 from the CR-5, whichever applies, by the percentage computed in column G for each agreement and enter in column H.

PART 3: If you own farmland jointly with someone other than your spouse, complete Part 3. For each agreement, enter the information for each owner.

Partners may use this part to show percentage of income or ownership if no U.S. 1065 was required. All partners must sign.

Treasury Offices

Forms are available at all Treasury offices listed below. (Treasury office staff do not prepare tax returns.)

DETROIT, 48202-6060
Cadillac Place, Suite 2-200
3060 W. Grand Blvd.

DIMONDALE*
7285 Parsons Drive
(* NOT a mailing address)

ESCANABA, 49829
State Office Building, Room 7
305 Ludington St.
(open 8 - 12 only)

FLINT, 48502
State Office Building, 7th Floor
125 E. Union St.

GRAND RAPIDS, 49503
State Office Building, 3rd Floor
350 Ottawa St., NW

STERLING HEIGHTS, 48314
41300 Dequindre, Suite 200

TRAVERSE CITY, 49684
701 S. Elmwood Ave., Box 14
(open 8 - 12 only)

To prevent unnecessary delays in processing, make sure the Farmland Development Rights Agreement(s), the deed to the property and the property tax statements are all in the same name.

Attach this notice to the front of your return.

Michigan Department of Treasury
Lansing, MI 48922

PRSRT STD
U.S. POSTAGE PAID
Mich. Dept. of Treasury

----- DETACH HERE -----

**ATTACH THIS SPECIAL NOTICE TO YOUR STATE INCOME TAX RETURN
FARMLAND PRESERVATION TAX CREDIT**

To ensure proper handling of your return, **attach this notice to the front of your MI-1040**. You must include your 2002 tax bills with corresponding agreement numbers listed on each bill, copies of **paid receipts** for your 2001 or 2002 property taxes, federal returns and all supporting schedules. Mail to:

Farmland Preservation Unit
Michigan Department of Treasury
P.O. Box 30058
Lansing, Michigan 48909